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TAGS: EFIN ECON PGOV CO
SUBJECT: STANFORD FINANCIAL SCANDAL FURTHER SHAKES COLOMBIAN INVESTOR CONFIDENCE

REF: A. BOGOTA 7
¶B. 08 BOGOTA 4263

¶1. (SBU) SUMMARY: Buffeted by the charges against and seizure of Stanford Financial Group's U.S. operations, the firm's nascent Colombian offices suspended operations voluntarily February 18. The exposure of Stanford's local independent brokerage clients appears limited with many already transferring their peso-denominated investments to other institutions. However, Colombian investors in Stanford Group's international products publicized through the firm's Bogota representation office could stand to lose an estimated USD 300 million in Antigua- or U.S.-based instruments. Beyond the potential losses, local financial experts have expressed concern over the scandal's impact on general investor confidence amid a slowing economy and the global financial crisis. END SUMMARY.

Recent Arrival

¶2. (U) Unlike operations in Venezuela and Ecuador dating back as far as 15 years, Stanford Financial Group is a relatively recent arrival to Colombia. Stanford entered the Colombian market in November 2006 following its acquisition of the Colombian brokerage firm Bolsa y Banca S.A. from Gustavo Gaviria, a prominent Colombian businessman and coffee grower. The firm began operations under the Stanford name in February 2007 and raised its local profile considerably as a corporate sponsor of Colombia's most famous professional golfer Camilo Villegas. In addition to its brokerage operations for local peso-denominated accounts on the Colombian Stock Exchange (BVC), Stanford has maintained a representation office for clients interested in investing in its international branches.

Brokerage Suspends Ops; Reassures Local Clients

¶3. (SBU) Following the entry of Stanford Financial Group into court-ordered receivership in the United States on February 16, the Stanford's Colombia-based brokerage company voluntarily suspended its operations as local Colombian clients transferred approximately USD 30 million in assets from the firm. Prior to its suspension, the brokerage firm had approximately 6,000 local clients. On February 25, a group of 500 Stanford clients voted to move another USD 30 million in three investment funds to other brokerages, leaving the Colombian branch of Stanford with approximately USD 40 million of the USD 100 million in investments it administered prior to the corporate office scandal. Under Colombian law, local subsidiaries of international financial firms must operate with their own capital separate from their

corporate headquarters. Stanford officials have publicly emphasized this separation from the Antigua and U.S. branches and assured Colombian clients their funds are safe and that local operations are adequately capitalized to meet all commitments to investors.

Exposure to Global Stanford Products Less Certain

¶4. (SBU) Less certain, however, is the exposure of Colombians who invested in Stanford Group's international products. The Stanford representation office in Bogota has offered Stanford Investment Group international products to Colombian clients since 2007. According to Stanford principals at the representation office, they are currently reviewing their records with the Superintendency of Finance to determine how many Colombians invested in products offered by the U.S. or Antigua branches. An unnamed former Stanford executive estimated in the Colombian press that as much as USD 300 million was invested by Colombian clients.

¶5. (SBU) While representing a significant potential loss for Colombian investors coming on the heels of a slowing local economy (ref A) and the collapse of numerous pyramid schemes in November 2008 (ref B), the total exposure in Colombia appears to be less than in Venezuela where press reports estimate losses could reach as high as USD 3 billion. Nevertheless, financial sector experts such as former Director of Public Credit and JPMorgan executive Julio Torres tell us the lingering danger of the Stanford scandal to Colombia is an erosion of general investor confidence after

the collapse of a U.S.bank-backed operation amid the broader financial crisis gripping large international firms such as Citibank and HSBC that also operate in Colombia.
BROWNFIELD